

AR01
HALIFAX
DEVELOPMENTS
LIMITED



ANNUAL REPORT

1970

HALIFAX DEVELOPMENTS LIMITED

BOARD OF DIRECTORS

H. P. Connor	— Chairman of the Board of Directors, National Sea Products Limited
A. R. Harrington	— President, Nova Scotia Light and Power Company Limited
J. J. Jodrey	— President, Minas Basin Pulp & Power Company Limited
J. H. M. Jones	— Chairman of the Board of Directors, Hermes Electronics Limited
L. A. Kitz	— Senior Partner, Kitz, Matheson, Green & MacIsaac
C. E. MacCulloch	— President, MacCulloch & Co. Ltd.
J. C. MacKeen	— Chairman of the Board of Directors, Nova Scotia Light and Power Company Limited
M. H. D. McAlpine	— President, Robert McAlpine Ltd.
Col. S. C. Oland	— Chairman of the Board of Directors, Oland & Son Limited
F. H. Sobey	— Chairman of the Board of Directors, Sobeys Stores Limited

OFFICERS

J. C. MacKeen	— Chairman of the Board of Directors
C. E. MacCulloch	— President
A. R. Harrington	— Vice-President
L. A. Kitz	— Vice-President
W. B. Hardman	— Vice-President and Secretary
J. D. Bryden	— General Manager

BANKER — Bank of Nova Scotia

SOLICITORS — Kitz, Matheson, Green & MacIsaac;
Stewart, MacKeen & Covert

AUDITORS — Price Waterhouse & Co.

TRANSFER AGENT AND REGISTRAR — Canada Permanent Trust Company — Halifax, Montreal & Toronto

LISTED — Toronto Stock Exchange

HEAD OFFICE — Suite 400 Barrington Street Tower, Scotia Square, Halifax, Nova Scotia

Cover Photo . . . Scotia Square — April 1971

Duke Street Tower (Left) and Barrington Tower (Right) atop the two level shopping mall. Between the two towers can be seen part of the first 192 unit apartment building. On the right of the Barrington Tower is the 1600 car multi-level parking garage on top of which a 304 room hotel will soon be constructed. The Trade Mart building is partially visible in the background (Right).



PRESIDENT'S REPORT TO THE SHAREHOLDERS

On behalf of the Board of Directors, I am pleased to present the Annual Report of your Company's activities for the year ended December 31 1970.

The financial statements and other information contained in this report indicate quite clearly that your Company enjoyed a most encouraging year in all areas of activity. This is particularly gratifying considering your Company's major asset, Scotia Square, is not complete and therefore has not begun to realize its true potential.

The Statement of Income represents income derived from the Trade Mart (Stage I) for the entire year, and Scotia Mall (Stage II), and the Duke Street Office Tower (Stage III) for the last nine (9) months of the year. Revenues received from the 1970 operation of both the Apartment building (Stage V) officially completed on December 31 1970, the second office tower on Barrington Street (Stage VI) officially completed on April 1 1971, as well as rental received from properties held for future development, have all been capitalized.

As a result of the change in the U.S. Exchange rate from a substantial discount to near parity during 1970, your Company converted all its U.S. dollar loans to Canadian, and thus realized a substantial profit on foreign exchange which is reflected in this year's Income Statement as an extraordinary gain.

In 1970, the Company changed the method used in calculating the annual charge for depreciation from the straight line method to

the Sinking Fund Method. The Sinking Fund Method is accepted in the real estate industry and we believe that it results in a more equitable matching of expenses and revenues.

During 1970, long term first mortgage funds amounting to \$14,826,000 were drawn down covering Scotia Mall, Duke Street Office Building and the first apartment Building, with the Barrington Street Office Building being financed through an interim loan from a chartered Bank pending the receipt of long term first mortgage funds after completion.

As at year end, construction worth \$5,800,000 was in progress, representing primarily Stage VI activity.

1970 was a good year for leasing. The Trade Mart continued to be fully leased, the Duke Street Office Tower was 96% occupied throughout most of the year, and Scotia Mall added a further eight (8) retail tenants to make a total of 67 outlets in the two-level mall. The apartment building leased well in the fall, particularly in the one bedroom category, and the result at year-end was 140 suites occupied out of a total of 192.

The Spring of 1971 indicates very encouraging signs of a strong leasing market, particularly in office space demand for our second office building. A few tenants occupied space in this tower at the end of 1970, although the building was not officially opened until February of 1971. Presently, leases have been signed for approximately 70% with active negotiations proceeding for a further 22%.

The retail sales performance of Scotia Mall during 1970 was very satisfactory and resulted in additional rentals (percentage rents) of over \$80,000, quite significantly above our earlier expectations. Judging by the performance of Sales volumes for the first two (2) months of 1971, our 1970 figure should be easily surpassed.

In 1970, your Company became one of the founding members of the Canadian Institute of Public Real Estate Companies (CIPREC), an organization formed for the express purpose of representing our industry to the public. I hope that this association will reach recognized importance and it is our intention to actively support and participate in its activities.

Activities in 1971

Your Company will continue to develop Scotia Square toward early completion to enable the development to fulfill its total promise. To that end, a summer construction start on a 304 room luxury hotel (Stage IV) is planned, with a scheduled opening for late 1972. Financing for this much needed hotel is in final negotiation stages.

In addition, it is expected that the apartment building planned to sit atop the north pad of the project will be changed to a third office building comprising about 85,000 square feet.

This change reflects successful leasing of the first two (2) office buildings. Presently, active negotiation is under way for a prime tenant, and if secured, construction could commence late this year for a 1973 opening.

Finally, assembly of downtown Halifax property will continue with a view toward major redevelopment prospects.

Your Company has been encouraged of late by the gradual reduction in cost of money, and this portends heightened development activity with your Company actively pursuing profitable real estate development opportunities.

In summary, 1970 was a rather remarkable one for your Company, and the results have, in my opinion, laid a strong and solid foundation from which successively more rewarding years will obtain, to the general benefit of all shareholders.

To my fellow Directors and the staff, I would like to acknowledge your substantial support and major contribution to the success of the Company during the past year. Your co-operation and untiring efforts have resulted in a most satisfactory performance.

Respectfully submitted,



President

SCOTIA SQUARE AT A GLANCE

Stage I — Trade Mart*
250,000 square feet of office and warehouse space

Stage II — Scotia Mall*
two level shopping mall 325,000 square feet
— Parkade*
multi-level parking garage with space for 1,600 automobiles

Stage III — Duke Street Tower*
14 storey office building
210,000 square feet

Stage IV — Hotel
304 room hotel to be constructed

Stage V — Scotia Tower*
192 unit apartment building

Stage VI — Barrington Street Tower*
18 storey office building
180,000 square feet

Stage VII — proposed office building 85,000 square feet

Stage VIII — proposed apartment building

Stage IX — proposed apartment building

Stage X — proposed apartment building

*Completed and Operating

HALIFAX DEVELOPMENTS LIMITED

STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31 1970

Rental income		\$2,184,877
Operating expenses	\$1,429,272	
Less: Recovered from tenants	<u>481,078</u>	
	948,194	
Interest on long-term debt	<u>1,272,150</u>	<u>2,220,344</u>
		(35,467)
Extraordinary income:		
Foreign exchange gain on interim financing of construction costs .	\$ 280,709	
Gain on sale of fixed assets	<u>22,103</u>	<u>302,812</u>
		267,345
Depreciation (Note 2)	\$ 160,022	
Amortization of bond discount and expense	<u>33,999</u>	<u>194,021</u>
Net income for the year		<u>\$ 73,324</u>

STATEMENT OF RETAINED EARNINGS FOR THE YEAR ENDED DECEMBER 31 1970

Retained earnings December 31 1969, as previously reported	\$ 24,665
Adjustment of prior years' depreciation (Note 2)	<u>88,958</u>
Retained earnings, as restated	113,623
Net income for the year ended December 31 1970	<u>73,324</u>
Retained earnings December 31 1970	<u>\$ 186,947</u>

HALIFAX DEVELOPMENT

BALANCE SHEET

ASSETS

Cash		\$	37,619	
Accounts and accruals receivable			171,026	
Prepaid expenses			20,260	
Performance deposit			150,000	
Fixed Assets, at cost:				
Land	\$ 1,481,942			
Buildings and equipment	\$26,638,140			
Less: Accumulated depreciation (Note 2)	<u>213,915</u>	26,424,225		
Properties acquired for future development		<u>573,877</u>		
		28,480,044		
Construction in progress (Note 1)		<u>5,856,858</u>	34,336,902	
Deferred charges:				
Bond discount and expense, less amortization	\$ 777,712			
Underwriting commission and expense in connection with issue of capital stock		<u>171,122</u>	<u>948,834</u>	
			<u>\$35,664,641</u>	

APPROVED ON BEHALF OF THE BOARD:

J. MacKeen

Director

Charles MacKeen

Director

HALIFAX DEVELOPMENTS LIMITED

DECEMBER 31 1970

LIABILITIES

Bank loan	\$ 330,000
Property taxes	593,434
Accounts payable and accrued liabilities	525,010
Construction accounts payable (including \$647,000 holdbacks)	1,056,119
Interim financing on construction costs (U.S. \$5,940,100)	6,034,815
Long-term debt (Note 3)	21,223,306
Subordinated Income Debentures (Note 4)	2,600,000

Shareholders' equity:

Capital Stock (Note 5):

Authorized —4,000,000 common shares without nominal or par value		
Issued —1,975,010 shares	\$ 3,115,010	
Retained earnings	<u>186,947</u>	<u>3,301,957</u>
		<u>\$35,664,641</u>

Auditors' Report to the Shareholders of Halifax Developments Limited:

We have examined the balance sheet of Halifax Developments Limited as at December 31 1970 and the statements of income, retained earnings and source and application of funds for the year then ended, and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company, these financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at December 31 1970 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the change explained in Note 2, with which we concur.

HALIFAX, March 31 1971

PRICE-WATERHOUSE & CO,
Chartered Accountants.

HALIFAX DEVELOPMENTS LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED DECEMBER 31 1970

Source of funds:

From sale of 8% First Mortgage Bonds, First Series, due 1996 . . .	\$12,000,000
From 9% First Mortgage loan	2,825,381
From sale of 8% Convertible Subordinated Income Debentures, Series B, due 1993	662,500
From interim financing of construction costs	6,034,815
From refund of deposit with trustee	2,000,000
From current bank loan	330,000
From operations for the year ended December 31 1970, before depreciation of \$160,022 and \$33,999 amortization of bond discount and expense	<u>267,345</u>
	<u>\$24,120,041</u>

Application of funds:

Repayment of construction bank loan		\$13,446,295
Expenditures on fixed assets:		
Purchases of land	\$1,145,959	
Expenditures on building and equipment, including construction in progress	8,034,217	
Net decrease in properties acquired for future development . . .	<u>(25,441)</u>	9,154,735
Principal repayments on long-term debt		139,103
Reduction in construction accounts payable, less net increase in other current liabilities and current assets other than cash		<u>1,382,422</u>
		<u>\$24,122,555</u>
Excess of funds expended over funds provided		\$ (2,514)
Cash balance at December 31 1969		<u>40,133</u>
Cash balance at December 31 1970		<u><u>\$ 37,619</u></u>

HALIFAX DEVELOPMENTS LIMITED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31 1970

Note 1 — Construction in Progress:

The company is constructing and developing a complex known as Scotia Square comprising wholesale and retail outlets, office and apartment buildings and an hotel to be located on approximately 19 acres of land in the City of Halifax. A construction programme has been prepared by the company dividing the entire project into ten stages extending over a period from October 15 1966 to September 30 1973. The cost of the entire project is currently estimated to be approximately \$50,000,000 including land, consultants' fees, preliminary expenses and other costs and including interest on borrowed money during the preliminary and construction periods.

Construction of Stages I, II and III of the project (designated, respectively, the Trade Mart, the Retail Area and Garage Area and the Duke Street Office Tower) has been completed; Stage I was placed on an operating basis from May 1 1968 and Stages II and III were placed on an operating basis from April 1 1970. Construction of Stage V (designated the Centre Apartment Tower) has been completed and this Stage will be placed on an operating basis early in 1971. Construction of Stage VI (designated the Barrington Street Office Tower) was virtually completed as of December 31 1970 and this Stage will also be placed on an operating basis early in 1971; the company has obtained a commitment from a lending institution for a first mortgage loan of \$5,000,000 to be advanced upon the completion of Stage VI and fulfillment of certain conditions.

As the project is still in the development stage, comparative figures for the previous year have not been included in the financial statements.

Note 2 — Depreciation Policy:

The company has adopted, on a retroactive basis, the sinking fund method of depreciation. Accordingly, depreciation has been computed on the basis of an amount which, compounded annually at a rate of 5%, will amortize the cost of the buildings over forty years. Under this method, depreciation charged to income will increase each year and in the fortieth year will have increased to approximately seven times the amount charged in the first year.

The effect of the change in the depreciation method is a reduction in depreciation expense of \$35,920 for 1968, \$53,038 for 1969 and \$303,063 for 1970 and a corresponding increase of \$88,958 in the net income previously reported for the 1968 and 1969 fiscal periods.

Note 3 — Long-Term Debt:

8¼%	First mortgage loan repayable in level monthly instalments of \$17,533 principal and interest to July 1 1993	\$ 2,175,843
8%	General Mortgage Sinking Fund Bonds, Series A, due August 1 1993. Sinking fund payments to commence in 1973	3,000,000
8%	General Mortgage Sinking Fund Bonds, Series B, due December 31 1994. Sinking fund payments to commence in 1974	1,000,000

NOTES TO FINANCIAL STATEMENT (continued)

8%	First Mortgage Bonds, First Series, due April 1 1996. Level monthly instalments of \$91,585 principal and interest commence April 1 1971. Additional interest, calculated at 3¼% of gross annual rentals from specifically mortgaged properties, payable at not less than \$60,000 nor more than \$110,000 in any one fiscal year of the company.	12,000,000
9%	First mortgage loan repayable in level monthly instalments of \$22,436 principal and interest to April 1 2000	2,809,394
	Mortgages on properties acquired for future development	<u>238,069</u>
		<u>\$21,223,306</u>

Payments on principal and sinking fund payments during the next five fiscal years are as follows:

1971, \$274,500; 1972, \$278,500; 1973, \$358,000; 1974, \$393,500;
1975, \$416,000.

Note 4 — Subordinated Income Debentures:

8%	Convertible Subordinated Income Debentures, Series B, due August 16 1993. Convertible, at the holder's option, at the rate of 400 common shares for each \$1,000 principal amount up to May 16 1978 and thereafter up to August 16 1993 at the rate of 285 common shares for each \$1,000 principal amount	\$ 2,000,000
8%	Subordinated Income Debentures, Series C, due August 16 1993	<u>600,000</u>
		<u>\$ 2,600,000</u>

Interest on the subordinated income debentures is not payable on the due date of May 16 each year unless, among other restrictions, the earnings for the previous fiscal period are available to meet such interest. Accordingly, interest of \$451,716 accrued to December 31 1970 on the subordinated income debentures has not been included in the financial statements for the year ended December 31 1970.

Note 5 — Capital Stock:

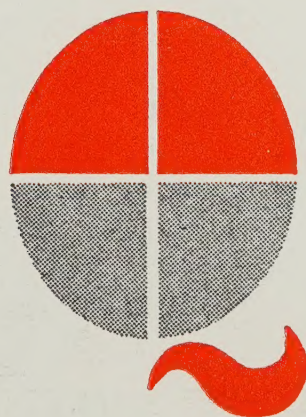
The company has granted the following options for the purchase of common shares:

<u>Number of Shares</u>	<u>Exercise price per share</u>	<u>Expiry date</u>
45,000	\$1.00	December 31 1972
25,000	1.00	March 31 1973
11,250	2.50	December 31 1972
30,000	2.90	October 28 1973
<u>150,000</u>	2.00	December 31 1972
<u>261,250</u>		

A further 800,000 common shares have been reserved for the conversion of the 8% Convertible Subordinated Income Debentures, Series B.

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SIX MONTHS ENDED JUNE 30TH 1970



Halifax Developments Limited *Semi-Annual Report 1970*

Halifax Developments Limited

UNAUDITED STATEMENT OF OPERATING INCOME FOR THE SIX MONTHS ENDED JUNE 30, 1970

Rental Income		\$ 1,159,468
Operating Expenses	\$ 838,984	
Less: Recovered from Tenants	<u>273,287</u>	
	565,697	
Interest on long-term debt	<u>757,926</u>	<u>1,323,623</u>
Net Loss before Depreciation & Amortization of Bond Discount & Expense		<u>\$ (164,155)</u>

The Statement of Operating Income reflects the results of operating Stage I, the Trade Mart, Stage II, the Retail Mall; and Stage III, the Duke Street Office Tower; of Scotia Square.

Stages II and III commenced operations on January 1, 1970, and as a consequence there are no comparable operating results for a similar period last year.

All start-up expenses in regard to Stages II and III have been expensed. If Depreciation and Amortization of Bond Discount and Expense had been charged for the period on a comparable basis to that charged during fiscal 1969 the amount of \$296,232 would have been expensed. A decision on the amount of Depreciation to be expensed will be made prior to the year end.

The Cash Loss for the first six months will be substantially changed by the year end. In June, 1970, the Company moved into a positive cash flow position and it is expected that this trend will continue.

Stage V, a 193 unit apartment building, is now substantially complete and rentals are up to expectations. Stage VI, the Barrington Street Office building will be completed by the year-end provided current labour problems are resolved in the near future. Both of these Stages are being completed within budget.

Negotiations are proceeding satisfactorily on the Hotel, Stage IV, and it is hoped that construction can be started by year-end. An additional 168 unit apartment building is now in the planning stage.

On behalf of the Board of Directors

C. E. MacCulloch,
President

UNAUDITED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE SIX MONTHS ENDED JUNE 30, 1970

Source of Funds:

Operations		\$ (460,387)
Add back charges not requiring outlay of funds		
Depreciation	279,907	
Amortization of Bond Discount & Expense	<u>16,325</u>	<u>296,232</u>
		(164,155)
Proceeds From:		
Issue of long-term debt		14,709,946
Decrease in construction in progress		<u>14,356,106</u>
		<u>28,901,897</u>

Application of Funds:

Payments on long-term debt	26,259
Purchase of fixed assets	<u>20,750,922</u>
	<u>20,777,181</u>
Decrease in working capital deficiency	8,124,716
Working capital deficiency beginning of period	<u>14,870,088</u>
Working capital deficiency end of period	<u>\$ 6,745,372</u>